

UTAH TOURISM UPDATE

April 1, 2003

Introduction

This weekly report provides a summary of major news stories and events impacting Utah tourism. It is our opinion that Utah's travel and tourism industry will continue to be significantly impacted by external events such as the war in Iraq, health concerns in Asia, and economic conditions in major markets. Further, internal factors such as airline restructuring, industry performance and profitability, and competitor activity also provide insight into what Utah might expect in the present as well as future environment.

Overall Assessment

In the short-term, expect the fear about war in Iraq and the rising threat of retaliatory terrorism, coupled with the downward spiral in consumer confidence, to further delay recovery of the travel industry and to put a damper on spring travel. Also expect many of the emerging patterns in leisure travel to continue and perhaps even intensify. ... A quick resolution to the war in Iraq could result in some recovery in leisure travel by the summer season. ... But if the war continues longer than expected or other complications emerge, the prospects of a full recovery in leisure travel, and of a healthy summer season, would dim significantly. (*TIA, March 26, 2003*)

Best Case – Americans take advantage of deep discounting as well as flexible refund policies to travel in numbers nearly equal to a year ago. Gas prices quickly stabilize at or below current levels to encourage drive vacations.

Worst Case – Rapidly escalating gas prices and random acts of terrorism cause Americans to suspend all but necessary travel. Even domestic travel would suffer due to the "fear factor" and higher costs of travel. (*AAA, March 20, 2003*)

Utah Outlook

Despite the large amount of "gloom and doom" reports regarding the travel industry, there are several trends that may positively impact Utah's position in the market:

- Utah is perceived as a safe, affordable destination
- Large majority of summer travelers are drive or short-flight visitors from the Western states
- Still enjoying afterglow of Olympic destinations and infrastructure
- "Escape to nature" a good way to relax and rejuvenate from stresses of round-the-clock war coverage
- Rural America and national parks benefiting from renewed emphasis on family, nature, heritage, and culture as well as increasing attention on personal and spiritual renewal

Airline News

UTAH TRAVEL IMPLICATIONS: Airline struggles, while significant, pose little threat to Utah tourism. The reductions in capacity are likely to occur on international routes and on underutilized routes with multiple flights. The most pressing issue for Utah travel remains the psychological impacts of air travel in uncertain times (security related and/or economic related).

AMERICAN AVOIDS BANKRUPTCY: Despite widespread speculation that American Airlines would seek bankruptcy protection as early as this week, negotiations through the weekend suggested tentative agreements with labor unions. Labor agreements would keep the nation's largest airline from bankruptcy, at least for now. ... American has announced plans to cut 6% of its international capacity and at least 7% of its domestic capacity by April. In related news, US Airways is expected to emerge from bankruptcy proceedings later this week (*USA Today, Mar. 31, 2003*)

AIR CAPACITY REDUCTIONS CONTINUE: Air travel fell 10% last week from a year ago as passengers postponed or cancelled trips, according to the Air Transport Association. Bookings for the next two to three months have also fallen sharply – from 20% on domestic flights to 40% on trans-Atlantic routes – forcing capacity reductions. US Airways announced plans to cut 4% of its flights. Northwest announced it would reduce capacity by 12% over the

next two months and cut 4,900 jobs. Delta also announced a 12% reduction in capacity. In addition, major U.S. carriers have announced nearly 10,000 job cuts in the last week and have hinted that job losses may approach 70,000 if the war in Iraq lasts more than 90 days. (*New York Times / USA Today, Mar. 27, 2003*)

ASIAN CARRIERS DROP U.S. ROUTES: Japan Airlines announced it would cut two flights to Hawaii through at least the end of April, citing a 40% drop in passenger loads last week and reduced demand moving forward. ... JAL's announcement followed Singapore Airlines decision to cut 65 weekly flights between U.S. cities and Singapore. (*USA Today, Mar. 27, 2003*)

Industry News

UTAH TRAVEL IMPLICATIONS: The outlook for Utah's summer season remains cautiously optimistic. Utah is currently in a transition from winter travel to summer travel. Anecdotal reports suggest few, if any, war-related impacts on Utah's ski season. In addition, several contacts indicate positive pre-bookings for summer travel. Despite higher energy costs, most travel is not based on the cost of gasoline. Travelers will likely adjust other aspects of their trip to accommodate increased travel costs. For example, the trend to vacation closer to home this summer may be strengthened.

SOME TRAVELERS STILL VACATIONING: According to figures released by AAA of Northern California, Nevada, and Utah last week, over 2,000 new bookings were recorded versus only 45 cancellations. However, nationwide, bookings were down 25% compared to the same week last year and down 13% from the week before. Bargains are everywhere as rental car rates were down by nearly 15% in March, hotel rooms decreased almost 9%, and fares were down slightly (0.3%). (*AAA, Mar. 28, 2003*)

OIL PRICES MODERATE AFTER SHARP INCREASES: The U.S. average retail price for regular gasoline fell last week after rising thirteen of the previous fourteen weeks. Prices dropped by 3.8 cents per gallon to hit 169.0 cents per gallon (still 34.8 cents per gallon higher than a year ago). California prices remained above \$2 per gallon for the fourth week in a row, falling to 214.3 cents per gallon. Average prices for the West Coast also stayed above the \$2 per gallon mark, at 203.7 cents per gallon. (*Energy Information Administration, Mar. 26, 2003*)

WAR PROMPTS HOTEL CANCELLATIONS: According to hotel consultancy Pricewaterhouse Coopers, hotels in major markets such as New York, Chicago, Miami, and Dallas have suffered cancellations of more than 20% of reservations for the next week. PWC has forecasted a 5% drop in lodging demand to continue for the next couple of weeks as cancellations appear to be outpacing new reservations. (*USA Today, Mar. 26, 2003*)

WAR, TERRORISM SCARE OFF BUSINESS TRAVELERS: According to a recent survey by USA Today, between 25% and 30% of business travelers report that war and terrorism will cause them to reduce travel plans in the coming months to both domestic and international destinations. The economy, by contrast, was cited by 18% of business travelers and a desire to be close to family by 17%. (*USA Today, Mar. 26, 2003*)

JAPANESE TRAVEL OUTLOOK: According to travel companies in Japan, foreign travel during the spring recess and Golden Week holidays have been replaced by domestic trips. Nippon Travel Agency Company's overseas travel bookings for April are down 8%, while May reservations have dropped 25%. On the other side, JTB reports a 9% increase in sales of domestic package tours in March. (*TIA, Mar. 27, 2003*)

ONLINE TRAVEL THRIVES: Analysts expect Internet-based travel agencies to survive any slump in tourism and perhaps emerge even stronger. Because of their smaller size, reduced overhead, and flexible retail models, most online brokers are able to adjust to quickly changing conditions. ... Travelocity, for example, replaced promotional space on its site with travel news and cancellation information. In addition, they began offering air travel insurance last week. Despite the changes, many agencies report they have already experienced a decline in domestic bookings and sharper declines in international bookings. In the months to come, most expect consumers to opt for last-minute travel plans, a trend which strengthens the position of online agencies. (*New York Times, Mar. 24, 2003*)

Destination News

UTAH TRAVEL IMPLICATIONS: Comparisons with the first quarter of 2002 are difficult due to the Olympic-induced surge in business. However, the latest data available through February suggest rates and occupancy are slightly below 2001 levels. Airport passengers and national parks visits are up slightly from 2002, although most other

indicators point to fewer visitors. Although sensitive to current developments, a *Utah!* branding campaign is scheduled to run in select Western markets in May and June. The campaign will focus on market-specific television and radio placements, national and regional magazine ads, and some Internet advertising.

LOWER DEMAND CAUSES RATES TO FALL IN LAS VEGAS: Demand for Las Vegas vacations dropped dramatically immediately after the outbreak of the war with Iraq. Lower demand caused average weekend rates to fall 44% from the year before. Even midweek rates fell 15%. Some analysts conclude bookings for April are “incredibly low” because conference and meeting planners are unwilling to schedule events during the first weeks of the war. Leisure travel is also down to the city as vacationers are likely staying at home watching news. All casino companies indicated that longer-term bookings were down, although short-term cancellations have not been materially affected. Most expect a rapid recovery due to pent up demand once the immediacy of the war fades. (*Las Vegas Review Journal*, Mar. 25, 2003)

SOME TRAVEL PROMOTERS STILL ADVERTISING: The Las Vegas Convention and Visitors Authority said it plans to continue its national television ad campaign after a one-week hiatus. Tourism leaders in Florida are also ready to crank up ad campaigns, although they have narrowed their target to travelers from Florida and adjacent states. Some businesses, however, are not ready to move ahead with planned campaigns, wanting to wait and assess market conditions. Officials at some hotels and casinos in New England as well as major hotelier Starwood have postponed ad campaigns until conditions improve. (*TIA*, Mar. 27, 2003)

SARS Update

UTAH TRAVEL IMPLICATIONS: SARS only intensifies the already poignant safety and security issues from Asian markets.

IMPACT OF SARS INTENSIFIES: The U.S. State Department issued an Asian-wide travel warning for Americans after the unknown respiratory ailment known as SARS infected more than 1,500 people in 15 nations. ... Of the 62 suspected cases of SARS in the U.S., 55 have been tied to travelers. ... The World Health Organization recommended screening all airport passengers for symptoms or possible exposure to an unknown respiratory disease. Meanwhile, Asian officials have resorted to closing schools, canceling concerts, and quarantining people who may have been exposed. People are canceling trips to affected regions and residents have begun wearing surgical masks and avoiding public places such as restaurants. Numerous Asian-based airlines have issued profit warnings due to the “double whammy” of war impacts and the deadly virus. (*Sydney Morning Herald*, Apr. 1, 2003 / *USA Today*, Mar. 30, 2003 / *Bloomberg*, Mar. 28, 2003 / *New York Times*, Mar. 25, 2003)

International Economies

UTAH TRAVEL IMPLICATIONS: Current exchange rates will make Utah-based packages and products more affordable as travel agents and wholesalers are able to reflect dollar depreciation through discounted prices. In addition to war worries, economic concerns will likely dampen travel from major European markets this summer.

EURO, YEN GAIN VALUE: The dollar weakened to \$1.09 versus the Euro late this week, marking the largest weekly decline in eight months. The Euro has gained nearly 20% versus the Dollar during the past 12 months. At the same time, the British Pound, Japanese Yen, and Canadian Dollar have all gained between 10% and 12% versus the Dollar. (*Bloomberg*, Mar. 31, 2003)

GERMAN CONSUMER CONFIDENCE AT 8-YEAR LOW: Rising unemployment and concern about the Iraq war kept German consumer confidence at an eight-year low according to GfK AG, Germany's largest market research company. German unemployment rose to 10.5% in February as the number of Germans looking for work is at its highest level in almost five years. Across the Euro-zone, consumer confidence fell to a nine-year low as employment concerns prompted increasing pessimism. (*Bloomberg*, Mar. 31, 2003)

FRANCE PARES DOWN ECONOMIC FORECAST: The French government reduced its forecast for growth in the first two quarters of 2003 as Europe's economy showed more signs of stagnation. ... Manufacturing confidence fell in January, mirroring results in neighboring Italy and Germany. Consumer spending was down 0.5% in February and unemployment climbed to a 2½-year high of 9.1%. European Central Bank council member John Hurley remarked, “Even in the event of an unwinding of geopolitical tensions, euro-area growth is set to remain modest for some time yet.” (*Bloomberg*, Mar. 28, 2003)